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July 24, 2003

**VIA OVERNIGHT DELIVERY**

Mr. Joe Werner  
Telecommunications Chief  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

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JUL 25 2003

TN REGULATORY AUTHORITY  
TELECOMMUNICATIONS DIVISION

Re: **TRADE SECRET PROTECTION REQUESTED**

**Cypress Communications Operating Company, Inc.'s Application For  
a Certificate to Provide Competing Local and Interexchange  
Telecommunications Services in the State of Tennessee, Docket No.  
03-00316**

Dear Mr. Werner:

Pursuant to the Tennessee Regulatory Authority's (the "TRA") request dated May 9, 2003, and pursuant to telephone discussions with Ms. Patsy Fulton of the TRA, the undersigned, on behalf of Cypress Communications Operating Company, Inc. (the "Applicant"), hereby submits the following documents:

1. Three-year revenue projection;
2. Year-end financials for 2002; and
3. Statement of promised funding.

The Applicant respectfully requests that its three-year revenue projection, attached hereto as Exhibit "A", be made under trade secret protection as private, proprietary information pursuant to TRA Rule 1220-1-1-.01(3)(g).

The Applicant filed the consolidated financial statement of U.S. RealTel, Inc. ("USRT") with the TRA on May 16, 2003 under trade secret protection. USRT, a publicly traded holding company with no operations of its own, is the parent company of Cypress Communications, Inc. ("Cypress Communications"). Cypress Communications is in turn the parent company of the Applicant. Cypress Communications produces all of

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Page 2

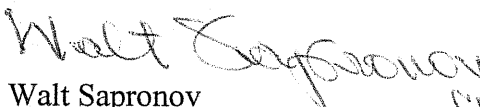
the current revenues of USRT. The Applicant has not produced any revenues from provision of telecommunications services in the State of Tennessee

We trust that this financial information, together with the previously-submitted financials for Applicant's parent, USRT, is sufficient to demonstrate formal compliance with the TRA's request of May 9, 2003.

Please contact the undersigned if there are further questions or comments. Thank you for your consideration of this matter.

Sincerely,

GERRY & SAPRONOV LLP



Walt Saprionov  
Attorney for Cypress Communications  
Operating Company, Inc.

WS/cm

Encs.

cc: Ms. Patsy Fulton  
Tennessee Regulatory Authority  
Ms. Deena Snipes  
Cypress Communications Operating Company, Inc.

**Exhibit "A"**

**Three-Year Revenue Projection**

**Trade Secret**

# Trade Secret

Cypress Communications, Inc.				<b>CONFIDENTIAL</b>	
Base Case 2004-2006					
		<<<<<<<<< Millions \$\$\$ >>>>>>>>>>			
		<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Revenue</b>		87.7	87.5	89.0	90.8
<b>COGS</b>		37.8	36.8	36.1	36.3
<b>Gross Margin</b>		49.9	50.7	52.9	54.5
<b>Operating Exp</b>		40.2	39.6	40.0	40.5
<b>EBITDA</b>		<b>9.7</b>	<b>11.1</b>	<b>12.9</b>	<b>14.0</b>
<b>Dep &amp; Amort</b>		4.2	4.2	4.2	4.2
<b>Operating Inc.</b>		<b>5.5</b>	<b>6.9</b>	<b>8.7</b>	<b>9.8</b>
<b>Interest</b>		2.6	2.7	2.9	3.0
<b>Taxes</b>		0.0	0.0	0.0	0.0
<b>Net Inc (Loss)</b>		<b>2.9</b>	<b>4.2</b>	<b>5.8</b>	<b>6.8</b>
<b>Cap Ex</b>		3.5	3.6	3.6	3.6
<b>Cash Flow</b>		<b>(0.6)</b>	<b>0.6</b>	<b>2.2</b>	<b>3.2</b>
<b>Notes</b>					
1. Includes the base business only.					
2. Excludes acquisitions.					
3. Assumes use of NOLs					
4. Excludes raising additional equity-based capital.					
5. All numbers subject to rounding.					

**Exhibit "B"**

**2002 Year-End Financials**

Table of Contents

U.S. REALTEL, INC.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2002

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 8,258,000
Accounts receivable, net of allowance for doubtful accounts of \$1,053,000	8,832,000
Prepaid expenses and other current assets	1,410,000

TOTAL CURRENT ASSETS 18,500,000

PROPERTY AND EQUIPMENT, NET (Note 5) 22,349,000

OTHER ASSETS 614,000

\$ 41,463,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued expenses (Note 7)	\$ 22,867,000
Current portion of long-term debt (Note 8)	655,000
Deferred income	476,000

TOTAL CURRENT LIABILITIES 23,998,000

LONG TERM PORTION OF LONG TERM DEBT (Note 8) 16,173,000

COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)

STOCKHOLDERS' EQUITY (Note 10)

Preferred stock, \$.001 par value; 5,000,000 shares authorized; 100 Series A issued and outstanding shares	—
Common stock, \$.001 par value; 50,000,000 shares authorized; 6,468,000 issued and outstanding shares (including treasury)	6,000
Additional paid-in capital	23,169,000
Accumulated deficit	(21,023,000)

Less: Treasury Stock, at cost; 594,000 shares (Note 11) 2,152,000  
(860,000)

TOTAL STOCKHOLDERS' EQUITY 1,292,000

\$ 41,463,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

U.S. REALTEL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002

	2001	2002
REVENUES	\$ —	\$ 51,717,000
DIRECT COSTS	—	28,704,000
REVENUES — NET OF DIRECT COSTS	—	23,013,000
OPERATING EXPENSES		
Sales and Marketing	78,000	3,977,000
General and administrative	2,611,000	25,789,000
TOTAL OPERATING EXPENSES	2,689,000	29,766,000
OTHER INCOME (EXPENSE)		
Interest income	266,000	60,000
Interest expense and financing costs (Notes 4 and 8)	(1,000)	(4,914,000)
Net loss on disposal of assets	—	(22,000)
TOTAL OTHER INCOME (EXPENSE) — NET	265,000	(4,876,000)
LOSS FROM CONTINUING OPERATIONS	(2,424,000)	(11,629,000)
GAIN (LOSS) FROM DISCONTINUED OPERATIONS (Notes 3 and 6)	(5,812,000)	2,032,000
Loss Before Extraordinary Items	(8,236,000)	(9,597,000)
Extraordinary Item — gain on extinguishment of debt (Note 8)	—	85,000
Extraordinary Item — gain on acquisition (Note 4)	—	7,783,000
Net Loss	\$(8,236,000)	\$ (1,729,000)
Net Loss Per Common Share		
Loss from continuing operations	\$ (0.39)	\$ (1.96)
Gain (loss) from discontinued operations	(0.93)	0.34
Extraordinary items	—	1.33
Net Loss Per Common Share — Basic and Diluted	\$ (1.32)	\$ (0.29)
Weighted Average Common Shares Outstanding	6,246,000	5,894,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## **Exhibit "C"**

### **Statement of Promised Funding**



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## Table of Contents

On January 2, 2001, the Convertible Note was converted into stock of the Company's Argentinean subsidiary, reducing the Company's ownership of the Argentinean subsidiary to 51%. Upon the conversion of the debt, the Company recorded an increase in additional paid-in capital of approximately \$1,500,000.

### (b) SENIOR CREDIT FACILITY

The Senior Credit Facility, in the amount of \$10 million revolving credit facility, was obtained by Cypress Communications pursuant to a Loan and Security Agreement, dated July 12, 2002 between Cypress Communications and Silicon Valley Bank. The Senior Credit Facility accrues interest at the prime rate (with a floor of 4.75%) plus 2% per annum and matures on July 12, 2004, unless terminated earlier. Borrowings under the Senior Credit Facility are collateralized by all of the assets of Cypress Communications and are unconditionally guaranteed by the Company. There is no outstanding balance under the Senior Credit Facility as of December 31, 2002.

### (c) BRIDGE LOAN

The Bridge Loan, in the amount of \$8 million term loan, was obtained by the Company and Cypress Communications pursuant to a Loan Agreement dated July 16, 2002 among the Company, Cypress Communications, the JOC Trust, the ACM Trust, the JCW Trust, Noro-Moseley and Wakefield (each, acting in such capacity, a "Bridge Lender" and collectively, the "Bridge Lenders"). The Bridge Loan accrues interest at 14% per annum, and matures on the earlier to occur of (i) one business day following the maturity of the Senior Credit Facility and (ii) July 16, 2005. Each Bridge Lender was entitled to receive an initial loan fee equal to 2.5% of that portion of the Bridge Loan that was funded by such Bridge Lender. Because the Bridge Loan was outstanding 60 days after the closing, the Company and Cypress Communications became obligated to pay each Bridge Lender an additional loan fee equal to 1.25% of the then outstanding principal balance of such Bridge Lender's share of the Bridge Loan. Because the Bridge Loan has been outstanding 90 days after the closing, the Company and Cypress Communications became obligated subsequent to the end of the quarterly period ended September 30, 2002 to pay each Bridge Lender an additional loan fee equal to 1.25% of the then outstanding principal balance of such Bridge Lender's share of the Bridge Loan. Because the Bridge Loan has been outstanding 120 days after the closing, the Company and Cypress Communications became obligated to pay to each Bridge Lender an additional loan fee equal to 1.00% of the then outstanding principal balance of such Bridge Lender's share of the Bridge Loan. The loan fees described above are cumulative and are payable on the earlier to occur of the maturity date of the Bridge Loans or the date on which the Bridge Loans are paid in full. The Company has accrued \$280,000 for these fees, which were treated as interest expense in the accompanying Consolidated Statements of Operations.

At the closing of the Bridge Loan, the Company issued the Bridge Lenders warrants to purchase an aggregate of 400,000 shares of the Company's common stock at an exercise price of \$1.13 per share. These warrants are exercisable for a term of 10 years and, based on the Black-Scholes pricing model, were valued by the Company at \$535,000. Assumptions used for the Black-Scholes option-pricing model included: no dividend yield for all years, expected volatility of 159 percent, risk-free interest rate of 5.08 percent and expected life of 10 years. The value of the warrants is being amortized to interest expense over two years in the accompanying Consolidated Statements of Operations.

### (d) CONVERTIBLE NOTES

The Convertible Notes, in the amount of \$10 million, were issued by the Company and Cypress Communications pursuant to a Purchase Agreement dated July 16, 2002 among the Company, Cypress Communications, the JOC Trust, the ACM Trust, the JCW Trust, Noro-Moseley and Wakefield (each, acting in such capacity, a "Purchaser" and collectively, the "Purchasers"). The Convertible Notes accrue interest at the rate of 7.5% per annum, compounded quarterly, and payable at maturity of the notes, whether upon their stated maturity of July 1, 2009, or earlier as a result of acceleration in the event of a default or upon redemption of the Convertible Notes. The principal of and accrued interest on the Convertible Notes is convertible into the Company's common stock at \$1.13 per share. The Convertible Notes are redeemable by the Company or Cypress Communications at any time by payment of the outstanding principal balance and accrued interest. In the event that the Convertible Notes are redeemed, the Purchasers have been issued warrants which will then be eligible for exercise to purchase the number of shares of common stock of the Issuer that the Convertible Notes were convertible into on the redemption date at a conversion price of \$1.13 per share. In connection with the issuance of the Convertible Notes,